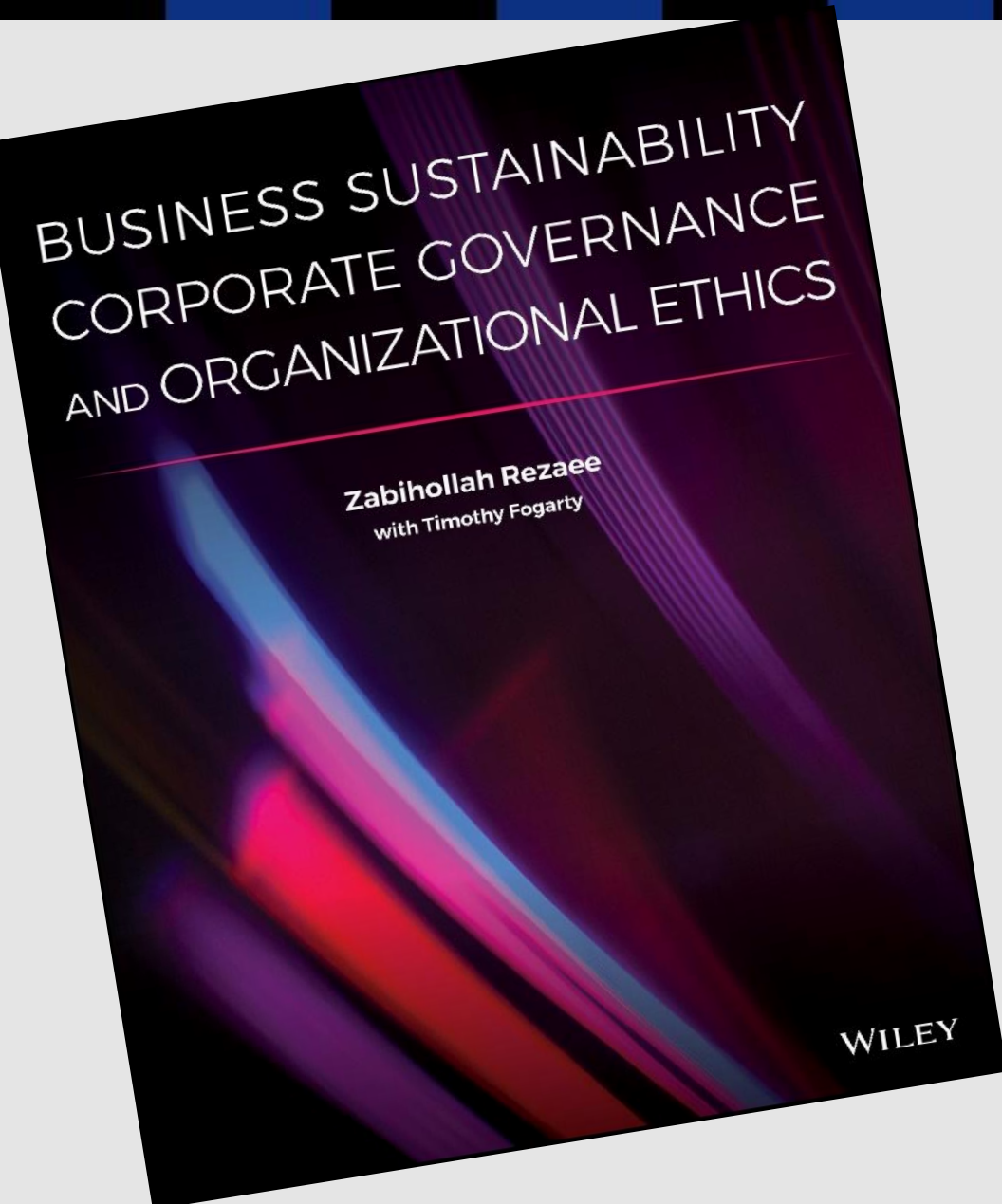


# **Business Sustainability and Impact Investing: Implications for Corporate Governance, Environmental, Social Initiatives**

## **World Sustainability Conference 2022**

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## Business Textbook

- 30 chapters organized into four modules on Business Sustainability, Corporate Governance and Organizational Ethics.
- Addresses the latest revisions to the AACSB Accreditation Standards.

**SEGMENT: 1**

**DEFINITION OF  
BUSINESS SUSTAINABILITY AND ITS  
RELEVANCE**

# Definition

- Business Sustainability is:
- A process (journey).
- A keen focus on economic, governance, social, ethical, and environmental (EGSEE) sustainability performance.
- An integrated and holistic corporate strategy and reporting.
- Corporate Social Responsibility (CSR) as one of the five dimensions of sustainability performance.
- CSR demands minimizing harm to society and the environment

# Relevance of Business sustainability

## **Demanded by investors**

More than 1,300 institutional investors worldwide, representing \$59 trillion in assets under management, have signed on to the U.N. Principles of Responsible Investing, which seek to integrate sustainability concerns into investment objectives. Asset managers like Blackrock, State Street, and Vanguard are now investing in sustainable and CSR companies.

## **Reported by companies**

Now more than 15,000 global public companies disclose their Economic Sustainability Performance (ESP) and Environmental, Social and Governance (ESG) sustainability Performance.

## **Mandated by regulators worldwide**

6,000 European Companies are required to disclose ESG and diversity, in 2017 and onwards. Hong Kong listed companies are now require to disclose both ESP and ESG (2016 and onwards).

# Business Sustainability Framework

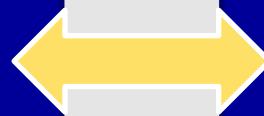
- Create shared value for all stakeholders
- The main goal and objective function is to maximize firm value..
- Time horizon.
- Multidimensional nature of sustainability performance in all EGSEE areas.
- Tensions among EGSEE

# Shared Value Creation



# Tension

Economic  
Sustainability  
Performance  
(ESP)

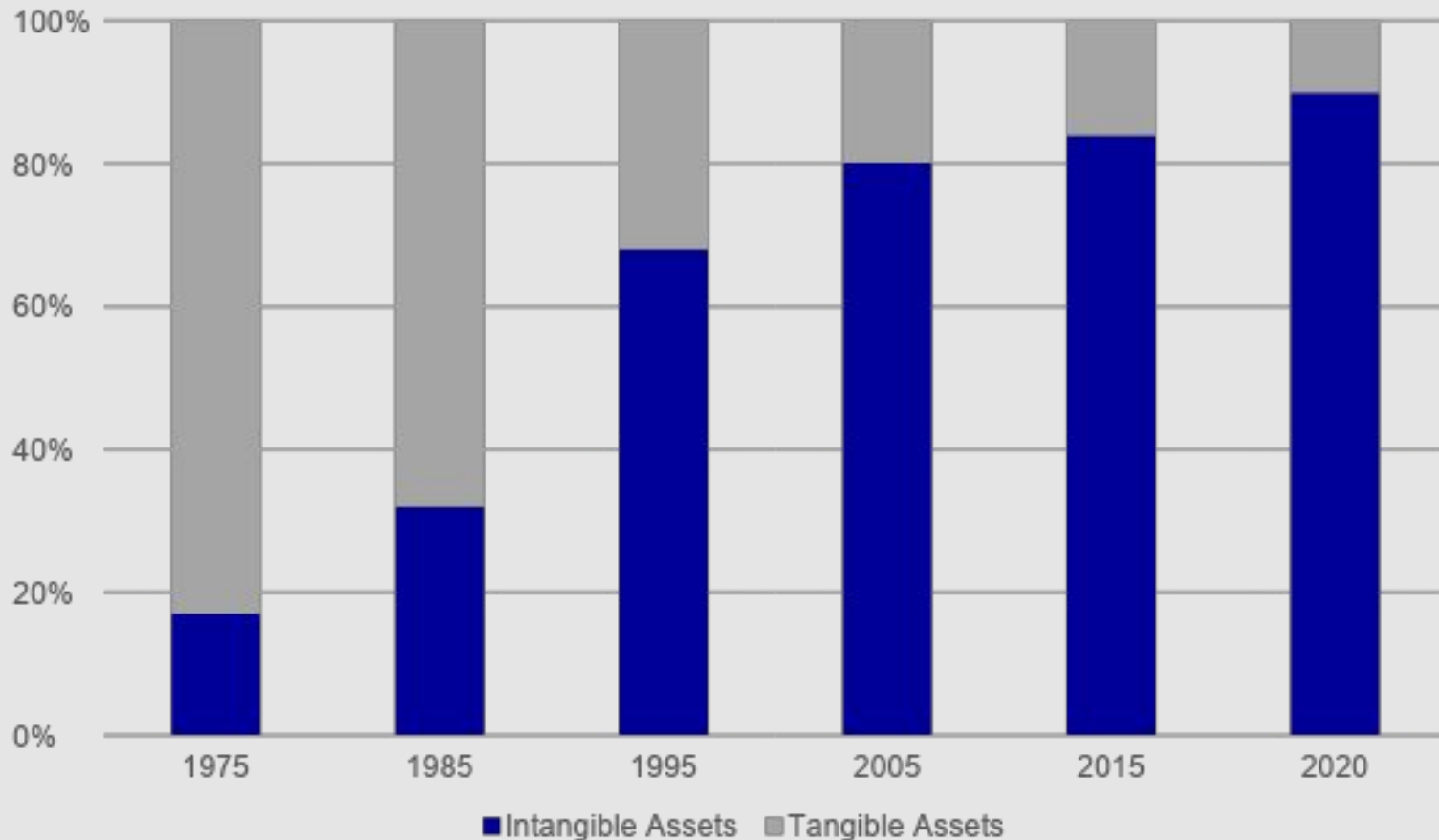


Environmental,  
Social and  
Governance (ESG)  
Sustainability  
Performance



# Components of S&P 500 Market Value




*“What is important is often not measured and what is measured is often not important”*



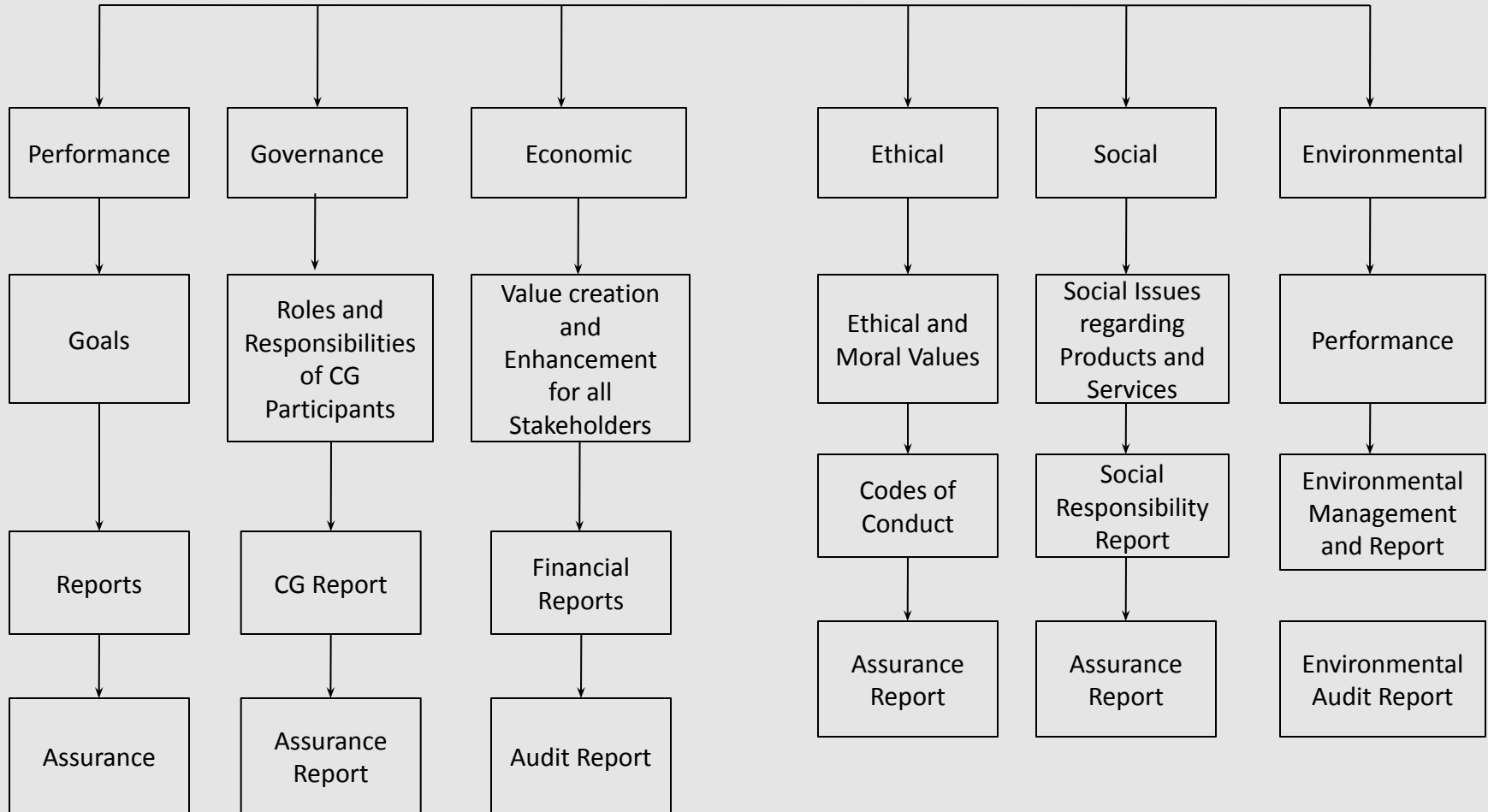
## **SEGMENT: 2**

# **BUSINESS SUSTAINABILITY PERFORMANCE**

# Definitions: Triple Bottom Line

- **Some definitions focus on protecting the “triple bottom line”.**
  - Human impact...  **People**
  - Environmental impact...  **Planet**
  - Financial impact...  **Profit**
- **Sustainability means balancing these interests for long-term success.**

# Entity Performance



# Sustainability Research

More than 150 Published papers on Corporate Social Responsibility (CSR) and Sustainability:

- Effects on Financial Reporting
- Effects on Earnings quality
- Effects on Cost of capital
- Effects on Tax avoidance
- Effects on Stock Prices
- Effects on Financial Performance

Two articles published in the *Journal of Accounting Literature* provide synthesis of research on CSR and Sustainability.

- Rezaee, Z. 2016. Business Sustainability Research: A Theoretical and Integrated Perspective, *Journal of Accounting Literature*, 36 (2016): 48-64
- Huang, X. B., & Watson, L. (2015). Corporate social responsibility research in accounting. *Journal of Accounting Literature*, 34, 1-16.

# United Nations Sustainability Development Goals

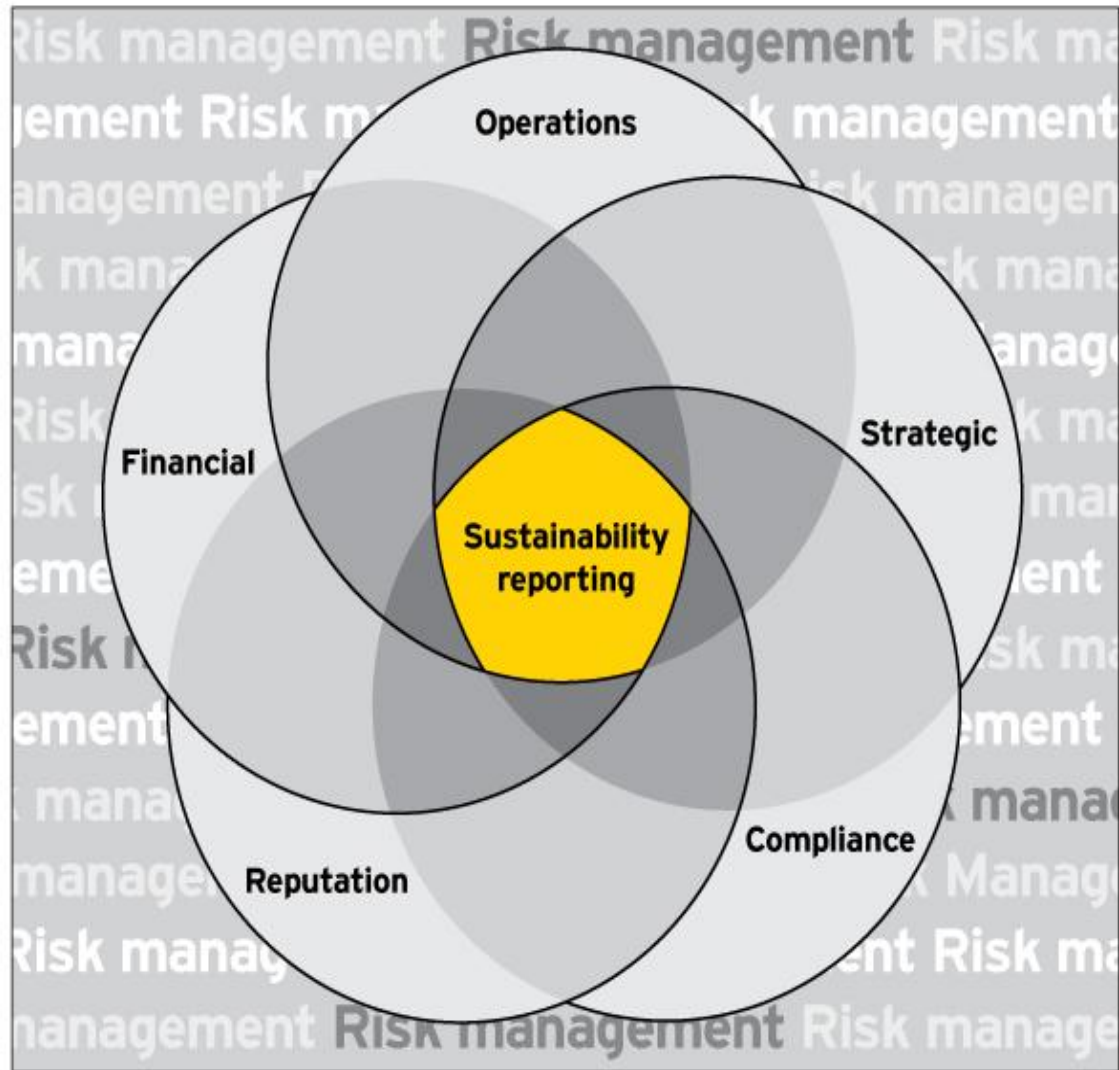
Recent initiatives include the **Sustainability Development Goals (SDGs)** and the **Principles for Responsible Investment (PRI)**. These encourage investors to use ESG factors in their investment decision.

- 17 SDGs involve areas such as climate change, economic inequality, innovation, sustainable production and consumption, energy efficiency and peace and justice.
- These SDGs are relevant to the three dimensions of sustainability development, economic development, and social and environmental development and can be linked to ESP and ESG sustainability performance.
- SDGs are supported by 169 targets and 232 indicators and aligned with GRI G4 performance indicators. Examples:
  - SDG 6 is a proxy for clean water and sanitation
  - A combination of SDGs 5, 10 and 16 focuses on human rights and equalities
  - SDG 13 is related to climate action
  - SDGs 14 and 15 are applicable to the nature of the life below the water and the life on land.

**SEGMENT: 3**

**BUSINESS SUSTAINABILITY  
RISK**

# Risk Management





# Sustainability Risk Assessment and Management

- Recognize sustainability's benefit in mitigating risk of noncompliance and prevention of a corporate collapse.
- Enterprise Risk Management (ERM) is vital in turning challenges into opportunities
- The move toward sustainability reporting underscores the importance of an adequate ERM in improving the effectiveness of all five EGSEE dimensions of sustainability performance
- ISO 31000: Risk Management—Principles and Guidelines in 2009, which provides principles and guidelines on risk management

# **SEGMENT: 4**

# **BUSINESS SUSTAINABILITY DISCLOSURE**

# Mandatory Sustainability Disclosures

- Finland was the first country to adopt a mandatory sustainability reporting law in 1997.
- Other countries adopting similar laws include: Australia, Austria, Canada, Denmark, France, Germany, Hong Kong, Malaysia, Netherlands, Sweden, and the United Kingdom.
- European Commission has adopted a directive that would require more than 6,000 companies to disclose their environmental, social, governance, and diversity sustainability performance for the 2017 reporting year.

In these countries, companies would report:

- Environmental performance
- Social and employee-related matters
- Human rights policies
- Anti-corruption and bribery issues
- Diversity on the board of directors
- In addition to reporting on their own operations, organizations will need to include information about their supply chain

# Accounting for business sustainability

- Accounting for business sustainability is the process of identifying, classifying, measuring, recognizing, and reporting performance in all areas of EGSEE.
- Accounting for sustainability is often referred to as “green accounting” or “green reporting”. Nonetheless, it covers all areas of economic viability, ethical culture, corporate governance, social responsibility, and environmental awareness.

# Assurance Standards in Sustainability Reporting

- Auditing standards either PCAOB Auditing standards in the United States or International Auditing and Assurance Standards (IAAS) governing reporting and assurance on economic activities.
- Assurance standards on other dimensions of sustainability including governance, ethics, social and environmental standards are yet to be fully-developed and globally accepted.
- The International Standard on Assurance Engagements (ISAE) 3000 issued by the IAAS Board in 2004 provides guidance for assurance on non-financial dimension of sustainability.
- AA1000AS issued in 2008 by the AccountAbility (AA) a global nonprofit organization that established management, reporting and assurance guidance for nonfinancial dimensions of sustainability performance.
- American Certified Public Accountants (AICPA) AT 101.
- The Canadian Institute of Chartered Accountants (CICA) Handbook Section 5025.

# Sustainability Information Disclosure

Sustainability information can be disclosed to corporate stakeholders through:

- Annual reports to shareholders and other stakeholders, particularly in the Management Discussion and Analysis (MD&A);
- A stand-alone voluntary reporting disclosing all five EGSEE dimensions of sustainability performance;
- Integration into business and market indices and/or credit rating metrics;
- Mandatory standardized and globally accepted sustainability reports (Integrated Reporting).

# Executives and Sustainability/Integrated Reporting

- Develop and maintain proper sustainability programs that provide a common framework for the integration of all five EGSEE dimensions of sustainability to business model and management processes
- Establish and integrated sustainability report to effectively communicate the achievement of sustainability performance to all stakeholders.
- Identify and assess the positive and negative impact of trends shaping the company's five EGSEE dimensions of sustainability performance.
- Design proper measurement of sustainability performance in addressing: (1) the time horizon of balancing short-term and long-term performance with a keen focus on long-term performance; and (2) the multidimensional nature of sustainability performance in all EGSEE areas.
- Link non-financial sustainability performance metrics to the sustainable financial success of the business.
- Use holistic and integrated internal and external reports in effectively communicating your business sustainability strategic decisions, actions and performance to both internal and external users of sustainability reports.

# **SEGMENT: 5**

# **BUSINESS SUSTAINABILITY DRIVERS/SOURCES**



# Sustainability Promoting Organizations

**the Global Reporting Initiative (GRI)**, in its recent G4 sustainability guidelines, promotes integrated reporting on the five EGSEE dimensions of sustainability performance with the ethical dimension being incorporated into other dimensions.

**the International Integrated Reporting Council (IIRC)**, developed the International Integrated Reporting Framework, which provides guidelines for companies to integrate financial and non-financial performance information to benefit all stakeholders.

**Sustainability Accounting Standards Board (SASB)** is currently developing sustainability accounting standards intended to assist public companies in disclosing material sustainability issues for the purpose of mandatory filings to the SEC, such as the Form 10-K and 20-F through the first quarter of 2015.

**International Sustainability Standards Board** was established in 2021 in collaboration with other organizations to uniform sustainability reporting.

# Sustainability and Impact Investing

- Business organizations pursue profit-with-purpose goals and investors integrate ESG) sustainability factors of performance, risk and disclosure into their investment decisions.
- In August 2019, the Business Roundtable (BRT), announced the adoption of a new “Statement on the Purpose of a Corporation” that promotes the move toward ESG sustainability of creating shared value for all stakeholders.
- impact investing is defined as investments made with the intention to generate a positive, measurable, social, and environmental impact in addition to a financial return.
- Impact investing concept has often been used interchangeably with socially responsible investing (SRI),
- SRI is commonly referred to as the investment strategy that maximizes financial returns while minimizing any negative impact on the society or environment whereas impact investing is a deliberate investment strategy to achieve both financial returns and social and/or environmental impacts.

# United Nations Sustainability Development Goals

Goal	Title	Description
<b>SDG 1</b>	NO POVERTY: A measure of social dimension	<ul style="list-style-type: none"> <li>• By 2030, ensure all make more than \$1.25/day</li> <li>• Equal access to economic resources.</li> <li>• Increase mobilization of economic resources</li> <li>• Economic and social protection measures by 2030</li> </ul>
<b>SDG 2</b>	ZERO HUNGER: A measure of social dimension	<p>End hunger by 2030 via universal nutrition (Zero Hunger Challenge)</p> <p>End malnutrition by 2030</p> <p>Increase investment in farming and agricultural endeavors</p> <p>Adopt food commodity markets</p>
<b>SDG 3</b>	GOOD HEALTH AND WELL-BEING: A measure of social dimension	<p>Maternal Mortality Rate ratio</p> <p>Reduce infant mortality in all countries</p> <p>End AIDS and other serious disease epidemic by 2030 (World Bank)</p> <p>Universal Reproductive care</p> <p>Universal health coverage</p>
<b>SDG 4</b>	QUALITY EDUCATION: A measure of social dimension	<ul style="list-style-type: none"> <li>• Expected years of schooling (years) UNESCO (2016)</li> <li>• Literacy rate of 15-24 year old, both sexes (%)2001-2013 UNESCO (2016)</li> <li>• Net primary school enrolment rate (%)1997-2014 UNESCO (2016)</li> <li>• Population aged 25-64 with tertiary education (%) (a) - 2011 OECD (2016)</li> <li>• PISA score (0-600) 2012 OECD (2016)</li> <li>• Population aged 25-64 with upper secondary and postsecondary non-tertiary educational attainment (%) 2011-2013 OECD (2016)</li> </ul>

# Sustainability Development Goals

SDG 5	<b>GENDER EQUALITY: A measure of social dimension</b>	<ul style="list-style-type: none"> <li>• Proportion of seats held by women in national parliaments (%) 2012-2014 IPU (2015)</li> <li>• Female years of schooling of the population aged 25 and above (% male) – 2014 UNDP (2015)</li> <li>• Female labor force participation rate (% male) – 2010-2014 ILO (2016)</li> <li>• Estimated demand for contraception that is unmet (% of women married or in the union, ages 15-49) 2015 WHO (2016)</li> <li>• Gender wage gap (% of the male median wage) - 2012 OECD (2016)</li> </ul>
SDG 6	<b>CLEAN WATER and SANITATION: A measure of social dimension</b>	<ul style="list-style-type: none"> <li>• Universal water access by 2030</li> <li>• Adopt universal sanitation rules by 2030</li> <li>• Universal management, ecosystems, and sanitation of water by 2030</li> </ul>
SDG 7	<b>AFFORDABLE and CLEAN ENERGY: A measure of social dimension</b>	<p>Universal, modern energy by 2030                  2x energy efficiency by 2030                  Infrastructure upgrades</p>
SDG 8	<b>DECENT WORK and ECONOMIC GROWTH: A measure of social dimension</b>	<ul style="list-style-type: none"> <li>• Full employment for all by 2030</li> <li>• Increase youthful employment</li> <li>• Create policies and technologies to increase economic growth and promote diversity</li> <li>• Promote protection of international labor rights</li> <li>• Eliminate forced labor</li> </ul>

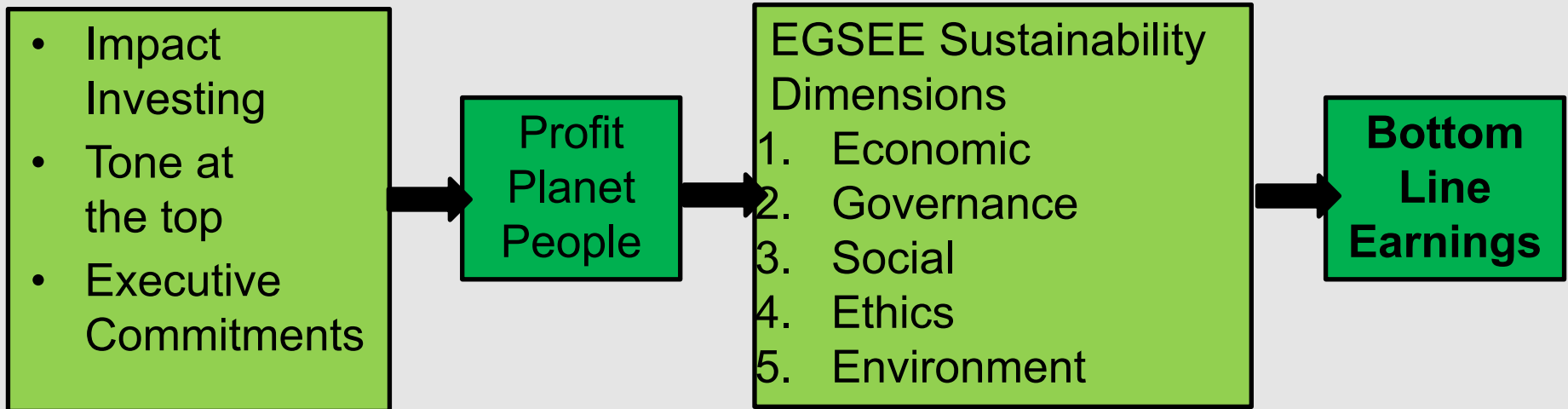
# Sustainability Development Goals

SDG 9	<b>INDUSTRY, INNOVATION AND PRODUCTION:</b> A measure of social dimension	<b>Create an international infrastructure that promotes diversity and inclusion</b> <b>Increase global accessibility to the Internet</b> <b>Encourage education into technology or research-related fields</b> <b>Promote financial funding for development of infrastructure</b>
SDG 10	<b>REDUCE INEQUALITY:</b> A measure of social dimension	<ul style="list-style-type: none"> <li>• Increase income growth of the bottom 40%</li> <li>• Include all races and sexes in economic, political, and social systems by 2030.</li> <li>• Reduce cost of immigration</li> <li>• Improve regulations of the global marketplace</li> <li>• Work with World Trade Organization to increase well-being of developing nations</li> </ul>
SDG 11	<b>SUSTAINABLE CITIES and COMMUNITIES:</b> A measure of social dimension	<ul style="list-style-type: none"> <li>• Housing for all by 2030</li> <li>• Reduce death due to poverty or economic status</li> <li>• Improvement settlement management globally by 2030</li> <li>• Transportation for all by 2030</li> </ul>
SDG 12	<b>RESPONSIBLE CONSUMPTION AND PRODUCTION:</b> A measure of environmental dimension	<ul style="list-style-type: none"> <li>• Percentage of anthropogenic wastewater that receives treatment (%) 2012 OECD (2016)</li> <li>• Municipal solid waste (kg/year/capita) - 2012 World Bank (2016)</li> <li>• Non-recycled municipal solid waste (kg/person/year) 2009-2013 OECD (2016)</li> </ul>
SDG 13	<b>CLIMATE CHANGE:</b> A measure of Environmental dimension	Energy-related CO2 emissions per capita (CO2/capita) - 2011 World Bank (2016) Climate Change Vulnerability Monitor (0-1) - 2014 HCSS (2014)

# Sustainability Development Goals

SDG 14	LIFE BELOW WATER: A measure of environmental dimension	<p>Conserve and sustainably use the oceans, seas and marine resources for sustainable development</p> <p>Manage this vital resource, which is vital to humanity and affects climate change.</p> <p>Manage and protect marine and coastal ecosystems from pollution</p>
SDG 15	LIFE ON LAND: A measure of social dimension	<ul style="list-style-type: none"> <li>• Red List Index of species survival (0-1) 2016</li> <li>• IUCN and BirdLife International (2016)</li> <li>• Annual change in forest area (%) 2012 YCELP &amp; CIESIN (2014)</li> <li>• Terrestrial sites of biodiversity importance that are completely protected (%) 2013</li> </ul> <p>BirdLife International, IUCN &amp; UNEP-WCMC (2016)</p>
SDG 16	PEACE AND JUSTICE: A measure of social dimension	<p>Homicides (per 100,000 people) 2008-2012 UNODC (2016)</p> <p>Prison population (per 100,000 people) - 2002-2013 ICPR (2014)</p> <p>Proportion of the population who feel safe walking alone at night in the city or area where they live. (%) 2006-2015 Gallup (2015)</p> <p>Corruption Perception Index (0-100) – 2014</p> <p>Transparency International (2015)</p> <p>Proportion of children under 5 years of age whose births have been registered with a civil authority, by age (%) 2014 UNICEF (2013)</p> <p>Government efficiency (1-7) - 2015/2016 WEF(2015)</p> <p>Property rights (1-7) - 2014/2015 WEF (2015)</p>
SDG 17	PARTNERSHIPS FOR THE GOALS: A measure of social dimension	<ul style="list-style-type: none"> <li>• International concessional public finance, including official development assistance (% of GNI) 2013 OECD (2016)</li> <li>• For all other countries: Tax revenue (% of GDP) 2013 World Bank (2016)</li> <li>• Health, education and R&amp;D spending (% of GDP) - 2005-2014 UNDP (2015)</li> </ul>

# Bottom-Line Earnings



# Questions?



Thank you for your attention!